

## Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 AID-05 CEA-01 CIAE-00 COME-00 EB-07

FRB-03 INR-07 NSAE-00 CIEP-01 SP-02 STR-04 TRSE-00

LAB-04 SIL-01 SAM-01 OMB-01 FEA-01 ACDA-05 IO-10 L-03

NSC-05 NRC-05 OES-03 DODE-00 AGR-05 PA-01 PRS-01 SS-15

/104 W

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R 181716Z SEP 75

FM USMISSION EC BRUSSELS

TO SECSTATE WASHDC 9576

INFO ALL EC CAPITALS 1078

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E.O. 11652: N/A

TAGS: EFIN, EEC

SUBJECT: EC COMMISSION SETS FORTH ITS FINANCIAL AND MONETARY  
OBJECTIVES FOR 1975/76

REF EC A-89

1. SUMMARY. EC COMMISSION FINANCE OFFICIALS PLAN TO PROPOSE TO THE MEMBER STATES FURTHER ECONOMIC EXPANSIONARY MEASURES, IF NECESSARY. THE COMMISSION IS MONITORING THE ECONOMIC SITUATION CLOSELY AND IS UNCERTAIN AT THIS TIME IF ADDITIONAL MEASURES WILL BE NEEDED. IT SEES AN UPTURN IN THE EC ECONOMY NEXT YEAR BUT GROWTH IS LIKELY TO BE SLUGGISH AND UNEMPLOYMENT WILL CONTINUE AT HIGH LEVELS. THE COMMISSION ALSO WANTS TO STRENGTHEN THE "EUROPEAN MONETARY ZONE", AND ADOPT MEDIUM-TERM POLICY GOALS FOR RESTRUCTURING THE EC ECONOMY. THE COMMISSION CONTINUES TO PUSH AHEAD WITH AN EC COMMON BORROWING FACILITY, ADOPTING A NEW UNIT OF ACCOUNT FOR THE EC BUDGET, AND AN EURATOM BORROWING.

2. ECONOMIC SITUATION: EC COMMISSION FINANCIAL OFFICIALS HAVE  
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DISCUSSED WITH THE MISSION THEIR PLANS AND OBJECTIVES FOR

1975/76. TOP PRIORITY WILL BE GIVEN TO EC ECONOMIC RECOVERY. THE COMMISSION IS NOW PROJECTING A 3 PERCENT FALL IN THE COMMUNITY'S GDP THIS YEAR. IT PROJECTS THAT EC INDUSTRIAL PRODUCTION WILL DECLINE THROUGH THE THIRD QUARTER AND LEVEL OUT IN THE FOURTH QUARTER. BASED ON PRELIMINARY ESTIMATES THE COMMISSION BELIEVES THAT THE COMMUNITY'S GDP WILL GROW BY 3-4 PERCENT NEXT YEAR. THIS GROWTH WILL NOT BE ENOUGH TO REDUCE APPRECIABLY UNEMPLOYMENT LEVELS, WHICH MAY BE AS HIGH AS 4.5 MILLION FOR AT LEAST THE FIRST HALF OF 1975. COMMISSION OFFICIALS SAY INDICATORS ARE SO MIXED THAT THEY REMAIN HIGHLY UNCERTAIN ABOUT THESE PRELIMINARY PROJECTIONS. SHOULD LEADING EC ECONOMIES FAIL TO RESPOND TO RECENT EXPANSIONARY MEASURES, THE COMMISSION PLANS TO RECOMMEND ADDITIONAL STIMULATION. COMMISSION OFFICIALS ARE PARTICULARLY CONCERNED THAT THE FRG'S AND GOF'S MEASURES WERE NOT DIRECTED TOWARD INCREASING FINAL DEMAND.

3. MEDIUM-TERM ECONOMIC ASSESSMENT. THE COMMISSION PLANS TO SEND ITS FOURTH MEDIUM-TERM ECONOMIC ASSESSMENT, ALONG WITH POLICY RECOMMENDATIONS, TO THE MEMBER STATES AND THE COUNCIL AT THE END OF THE YEAR. THE COMMISSION FORESEES A SLOWER ECONOMIC GROWTH RATE FOR THE EC IN THE FUTURE AND HIGHER LEVELS OF UNEMPLOYMENT THAN HAVE BEEN PAST EXPERIENCE. THE ASSESSMENT WILL FOCUS ON THE NEED TO RESTRUCTURE INDUSTRY, MAKE INDUSTRY MORE COMPETITIVE, REDISTRIBUTE INCOMES AND EXPAND SOCIAL WELFARE BENEFITS.

4. EUROPEAN MONETARY ZONE. MOSCA, DIRECTOR-GENERAL FOR FINANCIAL AFFAIRS, BELIEVES EXISTING INTERNATIONAL MONETARY ARRANGEMENTS ARE LIKELY TO EVOLVE INTO A SERIES OF REGIONAL MONETARY ZONES. THESE ZONES MAY EVENTUALLY BE LINKED UNDER THE AEGIS OF THE IMF ONCE A NEW INTERNATIONAL MONETARY SYSTEM IS ADOPTED.

5. THE COMMISSION PLANS TO PROPOSE MEASURES TO STRENGTHEN THE "EUROPEAN MONETARY ZONE". MOSCA WANTS FIRST TO IMPROVE EC ECONOMIC AND MONETARY POLICY COORDINATION SUCH AS BY GIVING ADDED POWERS TO THE EUROPEAN MONETARY COOPERATION FUND (EMCF). THE EC SHORT- AND MEDIUM-TERM CREDIT FACILITIES MIGHT ALSO BE EXPANDED. THE COMMISSION WOULD ALSO WELCOME THE EXPANSION OF THE EC MONETARY SNAKE. (COMMENT. THE COMMISSION HAS PREVIOUSLY LIMITED OFFICIAL USE

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ASKED THE FINANCE COUNCIL TO ACT ON SIMILAR PROPOSALS WITHOUT SUCCESS. IT IS NOT LIKELY THE COUNCIL WILL AGREE TO STRENGTHEN THE EMCF AT THIS TIME BECAUSE THE EC MONETARY AND CENTRAL BANK GOVERNORS COMMITTEES WANT TO KEEP MONETARY POLICY COORDINATION TO THEMSELVES. END COMMENT.)

6. COMMON BORROWING FACILITY. THE COMMISSION HAS WRITTEN LETTERS TO THE GOVERNMENTS OF SAUDI ARABIA AND KUWAIT TO SUGGEST THAT AN

EC DELEGATION MIGHT BEGIN NEGOTIATIONS TO BORROW FUNDS FOR THE EC COMMON BORROWING FACILITY. THE COMMISSION PLANS TO BEGIN THESE NEGOTIATIONS DURING THE SECOND HALF OF OCTOBER BUT IT HAS NOT YET RECEIVED A RESPONSE TO ITS LETTERS. THE COMMISSION HOPES TO PUT THE FACILITY INTO OPERATION EARLY IN 1976.

7. NEW UNIT OF ACCOUNT FOR THE BUDGET. THE COMMISSION IS DRAWING UP A PROPOSAL TO APPLY TO THE EC BUDGET THE NEW U.A. BASED ON A MARKET BASKET OF EC CURRENCIES. OFFICIALS HERE EXPECT A GOOD DEAL OF RESISTANCE FROM CERTAIN MEMBER STATES, ESPECIALLY THE UK, ITALY AND IRELAND. THE BUDGET CONTRIBUTIONS OF THESE COUNTRIES WOULD BE INCREASED SHOULD THE BUDGET U.A. BE CHANGED FROM THE OLD PAR VALUE OF CURRENCIES TO CURRENT MARKET RATES. THE FRG, HOWEVER, IS PUSHING TO ADOPT A REALISTIC RATE FOR BUDGET ASSESSMENTS. OBSERVERS HERE BELIEVE THAT THE BUDGET U.A. WILL NOT BE ADJUSTED IN TIME FOR THE 1976 BUDGET CONTRIBUTIONS AND IT WILL PROBABLY TAKE AT LEAST A YEAR BEFORE AGREEMENT ON A NEW U.A. CAN BE REACHED.

8. EURATOM BORROWING. THE COMMISSION IS ALSO ASKING COUNCIL AUTHORITY FOR EURATOM TO BORROW IN THE INTERNATIONAL CAPITAL MARKETS. THE PROCEEDS OF THESE BORROWING WOULD BE USED TO HELP FINANCE THE CONSTRUCTION OF NUCLEAR POWER STATIONS (SEE REF). THE EC PERMANENT REPRESENTATIVES HAVE NOT BEEN ABLE TO REACH AGREEMENT ON THE SPECIFICS OF THIS PROPOSAL, SUCH AS HOW THE EC SHOULD GUARANTEE SUCH BORROWINGS AND WHETHER THE COMMISSION OR THE EUROPEAN INVESTMENT BANK SHOULD ADMINISTER THE LOANS. THE FINANCE COUNCIL WILL AGAIN TAKE THIS PROPOSAL UP ON SEPT 22 BUT A DECISION IS NOT LIKELY. GREENWALD

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## Message Attributes

**Automatic Decaptioning:** X  
**Capture Date:** 01 JAN 1994  
**Channel Indicators:** n/a  
**Current Classification:** UNCLASSIFIED  
**Concepts:** ECONOMIC CONDITIONS, FINANCIAL PROGRAMS, ECONOMIC PROGRAMS  
**Control Number:** n/a  
**Copy:** SINGLE  
**Draft Date:** 18 SEP 1975  
**Decaption Date:** 01 JAN 1960  
**Decaption Note:**  
**Disposition Action:** RELEASED  
**Disposition Approved on Date:**  
**Disposition Authority:** GolinoFR  
**Disposition Case Number:** n/a  
**Disposition Comment:** 25 YEAR REVIEW  
**Disposition Date:** 28 MAY 2004  
**Disposition Event:**  
**Disposition History:** n/a  
**Disposition Reason:**  
**Disposition Remarks:**  
**Document Number:** 1975ECBRU08342  
**Document Source:** CORE  
**Document Unique ID:** 00  
**Drafter:** n/a  
**Enclosure:** n/a  
**Executive Order:** N/A  
**Errors:** N/A  
**Film Number:** D750324-0573  
**From:** EC BRUSSELS  
**Handling Restrictions:** n/a  
**Image Path:**  
**ISecure:** 1  
**Legacy Key:** link1975/newtext/t19750936/aaaabgbe.tel  
**Line Count:** 144  
**Locator:** TEXT ON-LINE, ON MICROFILM  
**Office:** ACTION EUR  
**Original Classification:** LIMITED OFFICIAL USE  
**Original Handling Restrictions:** n/a  
**Original Previous Classification:** n/a  
**Original Previous Handling Restrictions:** n/a  
**Page Count:** 3  
**Previous Channel Indicators:** n/a  
**Previous Classification:** LIMITED OFFICIAL USE  
**Previous Handling Restrictions:** n/a  
**Reference:** 75 EC BRUSSELS A-89  
**Review Action:** RELEASED, APPROVED  
**Review Authority:** GolinoFR  
**Review Comment:** n/a  
**Review Content Flags:**  
**Review Date:** 21 APR 2003  
**Review Event:**  
**Review Exemptions:** n/a  
**Review History:** RELEASED <21 APR 2003 by BoyleJA>; APPROVED <22 APR 2003 by GolinoFR>  
**Review Markings:**

Margaret P. Grafeld  
Declassified/Released  
US Department of State  
EO Systematic Review  
06 JUL 2006

**Review Media Identifier:**  
**Review Referrals:** n/a  
**Review Release Date:** n/a  
**Review Release Event:** n/a  
**Review Transfer Date:**  
**Review Withdrawn Fields:** n/a  
**Secure:** OPEN  
**Status:** NATIVE  
**Subject:** EC COMMISSION SETS FORTH ITS FINANCIAL AND MONETARY OBJECTIVES FOR 1975/76  
**TAGS:** EFIN, EEC  
**To:** STATE  
**Type:** TE  
**Markings:** Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 06 JUL 2006